Actuarial Guideline 49
What You Need to Know

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Timothy C. Pfeifer, FSA, MAAA

In mid-June of 2015, the NAIC adopted Actuarial Guideline 49, created to govern Indexed Universal Life Sales Illustrations. AG49 establishes three primary goals to be applied in two separate phases.

Effective September 1, 2015

- Introduce Guidelines for maximum illustrated index credited rates. In order to meet the AG49 objective of defining a maximum illustrated index credited rate, the Guideline created the notion of a Benchmark Index Account (BIA). In simple terms, the BIA is a one-year point-to-point S&P 500 index account with an annual return cap, a 100% participation rate, and a 0% annual floor, using the S&P 500 price level only (no dividends on the underlying stocks). AG49 then defines a maximum illustrated annual index credited rate based upon an average 25-year lookback calculation.

Effective March 1, 2016

- Policy loan leverage will be limited for index or "participating" loans. AG49 did not outlaw Participating Loans under IUL. Instead, AG49 took a simplistic approach of limiting the difference between the assumed illustrated credited rate on borrowed amounts and the illustrated loan charged rate on those same funds. This limit will be a difference of 100 basis points (annually, presumably). It should curtail much of the more aggressive Participating Loan illustration activity.
- Additional disclosures, not required in non-indexed UL illustrations, will now be required. AG49 requires supplemental alternative disclosures in addition to the basic illustration ledger. An Alternative Scale ledger must be shown assuming all premiums are deposited into the IUL's fixed account. If any policy loan activity is illustrated in the basic illustration, the Alternative Scale must show the rate credited to borrowed funds to be no greater than the loan rate charged on those funds (i.e., no participating loan leverage). Additional disclosures include, showing for each Index Account illustrated, a table of historical index changes over the latest twenty-year period, side-by-side with the corresponding hypothetical IUL credited interest rates.

How will the industry react to AG49? Here are some likely directions:

- There will be a reduction in the number of index account offerings, with the S&P 500 gaining even greater prominence. Non-S&P 500 Index Accounts will use different methods to promote their advantages.
- Persistency bonuses on IUL contracts will expand and new configurations will develop additional credited interest, refunds or reductions of COIs or loads in later years.
- Artificially high caps may be offset with higher loads, though to a more limited degree. High caps would result in higher maximum illustrated index credited rates, even though the bottom-line illustrated accumulation amounts may not show any greater competitiveness.

The adoption of AG49 was intended to target specific concerns regarding IUL illustrations. In many ways, AG49 is only a beginning. There are still numerous areas left to carrier judgement. As IUL products adjust to the new guidelines, remaining and new concerns will most likely need to be addressed.

For further commentary on AG49, see the full-length article: "Actuarial Guideline 49 – A Closer Look," by Tim Pfeifer, President - Pfeifer Advisory (pfeiferadvisory.com).